

State of Idaho

Legislative Services Office

Individual Entity Audit Report

A communication to the Joint Finance-Appropriations Committee

**IDAHO DEPARTMENT OF
ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND**

FY 2008

**Report OP24608
Date Issued: November 19, 2008**

Serving Idaho's Citizen Legislature



Don H. Berg, Manager

**Idaho Legislative Services Office
Legislative Audits Division**

**DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND**

SUMMARY

PURPOSE OF AUDIT REPORT

We have audited the financial statements of the Department of Environmental Quality (DEQ), Drinking Water State Revolving Fund (DWSRF) for fiscal year 2008, in accordance with auditing standards generally accepted in the United States of America. The purpose of our audit is to determine whether the DWSRF's financial statements are materially accurate and reliable, and that it complied with laws and regulations affecting fiscal operations.

CONCLUSION

We conclude that DWSRF's financial statements are materially accurate and reliable, and fiscal operations materially comply with related laws and regulations. As a result, we issued an unqualified opinion on the DWSRF's financial statements.

FINDINGS AND RECOMMENDATIONS

There are no findings and recommendations in this report or the prior report.

AGENCY RESPONSE

The Department has reviewed this report and is in general agreement with its contents.

This report is intended solely for the information and use of the State of Idaho and the Department of Environmental Quality and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the director, Toni Hardesty, and her staff.

ASSIGNED STAFF

Chris Farnsworth, CPA, Managing Auditor
Eric Bjork, Staff Auditor

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Legislative Services Office Idaho State Legislature

Serving Idaho's Citizen Legislature

Jeff Youtz
Director

November 19, 2008

Unqualified Opinion on
Basic Financial Statements

Independent Auditor's Report

Toni Hardesty, Director
Idaho Department of Environmental Quality
1410 North Hilton Street
Boise, ID 83706

Dear Ms. Hardesty:

We have audited the accompanying financial statements of the governmental activities and the special revenue fund of the Idaho Drinking Water State Revolving Fund (DWSRF) as of and for the year ended June 30, 2008, which collectively comprise the DWSRF's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the DWSRF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the DWSRF as of June 30, 2008, and the respective changes in financial position and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2008, on our consideration of the DWSRF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered when assessing the results of our audit.

Mike Nugent, Manager
Research & Legislation

Cathy Holland-Smith, Manager
Budget & Policy Analysis

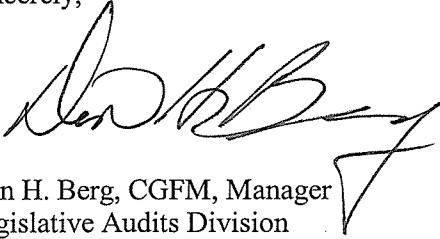
Don H. Berg, Manager
Legislative Audits

Glenn Harris, Manager
Information Technology

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The Management Discussion and Analysis on pages 3 and 4 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Sincerely,

A handwritten signature in black ink, appearing to read "Don H. Berg", with a stylized flourish at the end.

Don H. Berg, CGFM, Manager
Legislative Audits Division

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the DWSRF annual financial report presents management's evaluation of the financial performance of the program for the State fiscal year (SFY 2008), July 1, 2007 through June 30, 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

The DWSRF basic financial statements include the Enterprise Fund financial statements and accompanying notes to the financial statements. The Enterprise Fund financial statements consist of the following elements necessary for fair presentation:

- Statement of Net Assets – This statement presents information on all assets and liabilities of the DWSRF, with the difference between assets and liabilities reported as net assets.
- Statement of Revenues, Expenses, and Changes in Net Assets – This statement presents all revenues, expenses, and the changes in net assets of the DWSRF. The information in this statement is segregated into operating revenues, operating expenses, and non-operating revenues.
- Statement of Cash Flows – This statement details the categorical sources and uses of cash within the DWSRF, and provides a reconciliation of income to net cash provided by operating activities.
- Notes to the Financial Statements – This section details the financial activities, accounting policies and practices, as well as specific account information for the DWSRF.

These financial statements provide additional information to specific operations of the DWSRF than that which is presented in the State of Idaho, SFY 2008 *Comprehensive Annual Financial Report (CAFR)*. The Idaho *CAFR* includes the DWSRF, the related but separate Clean Water Revolving Loan Fund (CWSRF), which is also operated by the Idaho DEQ, and the Idaho Department of Water Resources loan program. Taken together, these three programs make up the Loan Fund as reported in the Idaho *CAFR*.

FINANCIAL HIGHLIGHTS STATE FISCAL YEAR 2008

- The DWSRF made \$13.0 million in loan disbursements to Idaho communities for drinking water projects, the most disbursements ever by the Idaho DWSRF. The money used for these disbursements was from two primary sources: \$10.1 million from U.S. Environmental Protection Agency (EPA) DWSRF capitalization grants and \$2.9 million from Idaho matching funds.
- Loan repayments of \$4.8 million were received, with all loans being current. Historically, the DWSRF has not experienced any loan defaults.
- Cash earned \$251,000 in interest on DWSRF cash deposits remaining in the Idle Pool and Investments earned \$240,000 by the Diversified Bond Fund.

CONDENSED FINANCIAL INFORMATION

	<u>FY 2008</u>	<u>FY 2007</u> (Restated)
Total Assets	\$70,139,877	\$55,794,070
Less Total Liabilities	<u>98,506</u>	<u>114,432</u>
Total Net Assets	\$70,041,371	\$55,679,638
Operating Revenue	2,041,646	2,065,808
Non-Operating Revenue	14,338,844	12,939,081
Operating Expenses	<u>2,041,646</u>	<u>2,065,808</u>
Change in Net Assets	\$14,338,844	\$12,939,081

ANALYSIS OF FINANCIAL POSITION

The Idaho DWSRF continued to show growth in SFY 2008 as evidenced by the \$14.3 million increase in total assets. This growth in assets was primarily due to the consumption of the federal capitalization grants and State match. During 2008, EPA grants contributed \$10.1 million towards loan disbursements, while Idaho matching funds contributed an additional \$2.9 million. Also, the DWSRF earned \$1.3 million of loan interest revenue.

Loans Receivable as of June 30, 2008, was \$54.1 million, an increase of \$9.6 million from the prior year. During the year, the DWSRF made loan disbursements of \$13.0 million, while collecting \$3.6 million of loan principal repayments.

Cash decreased by \$2.9 million during the year to a balance of \$2.1 million on June 30, 2008. An additional investment of \$8.0 million in the Diversified Bond Fund was made on June 1, 2008.

STATE OF IDAHO - DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008

ASSETS

Current Assets

	Loan Activities	Set-Aside Programs	Total
Cash	\$2,052,877	(\$2,807)	\$2,050,070
Investments	12,575,568	0	12,575,568
Interest Receivable - Fund Balance	51,871	0	51,871
Interest Receivable - Loans	179,059	0	179,059
Loans Receivable	1,444,241	0	1,444,241
Due From EPA	0	101,313	101,313
Due From State	684,910	0	684,910
Total Current Assets	\$16,988,526	\$98,506	\$17,087,032

Non-Current Assets

Loans Receivable	\$52,676,186	\$0	\$52,676,186
Interest Receivable - Loans	376,660	0	376,660
Total Non-Current Assets	\$53,052,846	\$0	\$53,052,846
Total Assets	\$70,041,372	\$98,506	\$70,139,878

LIABILITIES

Current Liabilities

Set-Asides Payable	\$0	\$97,360	\$97,360
Loan Administration Payable	0	1,146	1,146
Total Current Liabilities	\$0	\$98,506	\$98,506
TOTAL LIABILITIES	\$0	\$98,506	\$98,506

NET ASSETS

Unrestricted	\$70,041,372	\$0	\$70,041,372
TOTAL NET ASSETS	\$70,041,372	\$0	\$70,041,372

The accompanying notes are an integral part of these financial statements.

STATE OF IDAHO - DEPARTMENT OF ENVIRONMENTAL QUALITY
 DRINKING WATER STATE REVOLVING FUND
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

	Loan Activities	Set-Aside Programs	Total
OPERATING REVENUES			
EPA Operating Revenue	\$0	\$2,041,646	\$2,041,646
Total Operating Revenues	\$0	\$2,041,646	\$2,041,646
OPERATING EXPENSES			
<u>Program Administration</u>			
Personnel Expense	\$0	\$237,560	\$237,560
Operating Expense	0	18,224	18,224
Travel	0	2,497	2,497
Indirect	0	78,645	78,645
Total Program Administration	\$0	\$336,926	\$336,926
<u>Program Set-Asides</u>			
Personnel Expense	\$0	\$810,558	\$810,558
Operating Expense	0	616,228	616,228
Travel	0	9,658	9,658
Indirect	0	268,276	268,276
Total Program Set-Asides	\$0	\$1,704,720	\$1,704,720
Total Operating Expenses	\$0	\$2,041,646	\$2,041,646
Operating Income	\$0	\$0	\$0
NON-OPERATING REVENUES			
Contributions From EPA	\$10,070,712	\$0	\$10,070,712
Contributions From State	2,421,888	0	2,421,888
Interest Earned-Fund Balance	491,455		
Interest Earned - Loans	1,354,789	0	1,354,789
Total Non-Operating Revenues	\$14,338,844	\$0	\$14,338,844
Change in Net Assets	\$14,338,844	\$0	\$14,338,844
Net Assets - Beginning of Year (Restated)	55,702,528	0	55,702,528
Net Assets - End of Year	\$70,041,372	\$0	\$70,041,372

The accompanying notes are an integral part of these financial statements.

**STATE OF IDAHO - DEPARTMENT OF ENVIRONMENTAL QUALITY
DRINKING WATER STATE REVOLVING FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING JUNE 30, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received From EPA	\$2,122,770
Cash Disbursed - Administration Expenses	(345,469)
Cash Disbursed - Other Program Expenses	(1,712,103)
Net Cash Provided by Operating Activities	<u>\$65,198</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Cash Received From EPA	\$10,070,712
Cash Received as State Match	2,919,047
Net Cash Provided by Non-Capital Financing Activities	<u>\$12,989,759</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received - Investment Interest	\$475,918
Cash Received - Loan Interest Payments	1,143,959
Cash Received - Loan Principal Repayments	3,611,661
Loan Disbursements	(12,989,760)
Purchase of Investments	(8,208,406)
Net Cash Used by Investing Activities	<u>(\$15,966,628)</u>

Net Decrease in Cash	(\$2,911,671)
Cash Balance - Beginning of Year	4,961,741
Cash Balance - End of Year	<u><u>\$2,050,070</u></u>

Reconciliation of Operating Income to Net Cash Provided by Operating Expenses

Operating Income	\$0
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities	
Change in Due From EPA	81,125
Change in Administrative Payable	(8,543)
Change In Program Set-Asides Payable	(7,384)

Net Cash Provided by Operating Activities	<u><u>\$65,198</u></u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization of the Fund

The DWSRF was established pursuant to the Federal Safe Drinking Water Act (the Act) Amendments of 1996 (Pub. L 104-182). The Act established the DWSRF to assist public water systems to finance the costs of infrastructure needed to achieve or maintain compliance with the Act requirements and to protect public health. Section 1452 of the Act authorizes the administrator of the U.S. Environmental Protection Agency (EPA) to award capitalization grants to states, which in turn can provide low cost loans and other forms of assistance to eligible systems. The Act also established a strong emphasis on preventing contamination and enhancing water systems management by allowing states to use some of the Act funds for source water protection, capacity development, and operator certification.

The DWSRF is in the process of being capitalized by the EPA through a series of grants beginning in 1997. States are required to provide an additional 20% of the federal capitalization grant as matching funds in order to receive a grant. As of June 30, 2008, Congress authorized the EPA to award \$93,392,500 in capitalization grants to Idaho. The State is required to contribute \$18,768,500 in matching funds. DWSRF loan repayments, including interest and principal, must be returned to the DWSRF. DWSRF money is to be used for eligible purposes in perpetuity. In accordance with the Act, the corpus of the federal and State capital contributions to the DWSRF will be maintained. All disbursements, repayments, contributions from federal and State sources, and related transactions are accounted for within the DWSRF.

The DWSRF is administered by the Idaho DEQ. The DWSRF does not have any full time employees. Instead, DEQ charges the DWSRF for time spent on DWSRF activities by DEQ employees, and the DWSRF reimburses the DEQ Fund for such costs. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the DWSRF based on direct salary costs. Employees charging time to the DWSRF are covered by the benefits of the State. The DWSRF is also charged indirect costs of the State through the cost allocation plan for general State expenses.

The financial statements are intended to present the financial position and results of the operations of the DWSRF, a component of the State of Idaho. These statements are not intended to present the financial position or results of operations for the DEQ, of which the DWSRF is a part.

Basis of Accounting and Measurement Focus

Enterprise funds, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, are required to apply applicable FASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: *Statements and Interpretations of Financial Accounting Standards Board (FASB)*; *Accounting Principles Board Opinions*; and *Account Research Bulletins of the Committee on Accounting Procedures*. In addition, an enterprise activity may apply all FASB statements and interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements. The DWSRF has elected not to follow FASB pronouncements issued after November 30, 1989.

The DWSRF presents its financial statements as an enterprise fund. Enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting. The State's central accounting system records transactions on a cash basis of accounting. The financial records of the DWSRF have been converted as necessary to the accrual basis. The accrual basis of accounting requires recording revenues when earned and expenses when incurred.

Operating and Non-Operating Revenue and Expenses

Operating and non-operating revenue and expenses are presented separately on the operating statement. Operating revenue and expenses result from transactions associated with the administrative activity of the DWSRF, for example, administrative expenses and contribution from the EPA for administrative costs. All other transactions are reported as non-operating revenue, such as contributions from the EPA and the State.

Cash and Cash Equivalents

Pursuant to Idaho Code, all cash of the DWSRF is deposited with the Office of the State Treasurer. The State Treasurer is responsible for the investment of the cash balances of the State.

In accordance with the Safe Drinking Water Act and Idaho Code, all cash of the DWSRF is perpetually appropriated for program purposes.

Capital Assets

Capital assets are generally defined as land, land improvements, buildings, fixtures, equipment, and property under construction, and are recorded at cost. The DWSRF owns no land, land improvements, buildings, fixtures, or property under construction and has no plans to acquire any.

Loans Receivable and Interest Capitalization

Loan funds are disbursed to the local agencies as the agencies incur costs for the purposes of the loan and request loan disbursements from the DWSRF. Typically, interest is calculated from the date that funds are advanced. After final disbursement has been made, the repayment schedule identified in the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period. At the loan closing, the loan recipient is given the opportunity to payoff any accrued interest during the construction phase or to capitalize the interest into the loan principal, subject to the available debt capacity of the loan recipient as stated in the loan award.

Management considers all loans to be fully collectible; therefore, no allowance for uncollectible accounts is made.

Indirect Costs - Specific DWSRF Liabilities

Certain liabilities, such as compensated absences, pension plan obligations, and commitments under non-capitalized (operating) leases are obligations of the DEQ, and the DWSRF receives an allocation of these costs, either through direct expenses as incurred or through the application of a negotiated indirect rate.

For the year ended June 30, 2008, the DWSRF does not have separate specific liabilities for compensated absences, pension plan obligations, and commitments under non-capitalized (operating) leases.

Post-Employment Benefits

The State funds or partially funds post-employment benefits relating to health, disability, and life insurance. The DEQ participates in the State of Idaho's post-employment benefit programs. The State administers the retiree health care plan, which allows retirees to purchase health care insurance coverage for themselves and eligible dependents. The State provides long-term disability income benefits for active employees who become disabled, generally up to a maximum age of 70. The State provides basic life and dependent life coverage for disabled employees, generally up to a maximum age of 70. For up to 30 months following the date of disability, an employee is entitled to continue health care coverage. Benefit costs are paid by the DEQ through a rate charged by the State. The primary government is reporting the liability for the retiree health care and long-term disability benefits. Specific details of these post-employment benefits are available in the *CAFR*, which may be obtained by contacting the Office of the State Controller.

State Match

Under Idaho Code, the State match is perpetually appropriated from the Water Pollution Control Account. The State is only required to deposit a cash match into the DWSRF when an actual cash draw from the EPA is made.

NOTE 2 – CASH AND INVESTMENTS

The DWSRF participates in the State Treasurer's internal and external investment pools.

The Idle Fund is an internal investment pool managed by the State Treasurer's Office on behalf of participants. Money not needed to meet immediate operating obligations is invested in accordance with Idaho Code, Sections 67-1210 and 67-1210A. Participation in the pool is involuntary.

Idle Pool Credit Risk

State law limits investments to those listed in the Idaho Code sections identified above. The Treasurer has an informal investment policy to comply with State law, thus limiting credit risk.

The Treasurer's Idle Fund is an unrated internal investment pool. The DWSRF has total deposits of \$2,052,877 in the pool. Deposits are stated at cost, which approximates market.

Idle Pool Interest Rate Risk

The Treasurer has an informal investment policy that limits certain investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

The DWSRF also participates in the Diversified Bond Fund, an external investment pool sponsored by the State Treasurer's Office. A copy of the State's *CAFR*, including the investment pool's financial statement, is available from the Office of the State Controller, Bureau of Reporting and Review.

Idaho Code restricts the State Treasurer to certain types of investments.

Diversified Bond Fund Credit Risk

The State Treasurer's Diversified Bond Fund has been assigned a AAA fund credit quality rating and an S2 volatility rating by Standard and Poor's ratings services.

The AAA rating of the DBF signifies that according to analysis conducted by Standard and Poor's, the portfolio holdings provide extremely strong protection against losses from credit defaults.

The S2 volatility rating assigned to the DBF indicates the fund's low to moderate sensitivity to changing market conditions.

Diversified Bond Fund Interest Rate Risk

As of June 30, 2008, the DWSRF investment in the Diversified Bond Fund had a fair value of \$12,575,568 with a weighted average maturity of 4.1 years. The State Treasurer has an informal investment policy that limits certain investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

NOTE 3 – LOANS RECEIVABLE

Extent, Nature, and Terms of Financial Instruments

The DWSRF makes loans to qualified agencies for projects that meet the eligibility requirements of the Act. Loans are financed by capitalization grants, State match, and revolving funds. The stated interest rate on loans ranges from 0% to 4% and loans are generally repaid over 20 years starting within one year after the project is completed.

Collateral

At the loan closing, the State receives collateral, typically a sewer revenue bond, local improvement district bond or promissory note, from the borrower. As of June 30, 2008, the Office of the State Treasurer is holding \$17,300,818 of promissory notes and \$7,660,203 of bonds as collateral for the DWSRF.

Loans by Category

Loans receivable at June 30, 2008, are as follows:

	<i>Loan Authorized</i>	<i>Principal Repayments</i>	<i>Remaining Commitment</i>	<i>Receivable Balance</i>
Completed Projects	\$41,368,883	\$9,371,831	\$0	\$31,997,052
Projects in Progress	<u>70,901,590</u>	<u>9,735</u>	<u>48,768,480</u>	<u>22,123,375</u>
Totals	<u>\$112,270,473</u>	<u>\$9,381,566</u>	<u>\$48,768,480</u>	\$54,120,427
Less: Amount Due Within 1 Year (Current)				<u>1,444,241</u>
Loans Receivable, Net of Current Maturities				<u>\$52,676,186</u>

The projected principal repayments in subsequent years are as follows:

<i>Year Ending June 30:</i>	<i>Amount</i>
2009	\$1,444,241
2010	2,055,155
2011	2,280,058
2012	2,408,930
2013	2,519,059
Thereafter	<u>43,412,984</u>
Total Loans Receivable	<u><u>\$54,120,427</u></u>

Major Loans to Local Agencies

As of June 30, 2008, the DWSRF had made loans to the agencies listed below that, in aggregate, exceeded \$3 million. The outstanding balance of these loans represents approximately 43% of the total loans receivable, as follows:

<i>Local Agency</i>	<i>Current Loan Amount</i>	<i>Outstanding Balance</i>
City of Ammon	\$15,000,000	\$322,069
City of Fruitland	14,800,000	1,731,215
City of Salmon	6,662,000	6,170,466
City of Twin Falls	6,400,000	4,979,987
Central Shoshone County	6,000,000	2,204,458
City of McCall	5,908,755	4,907,244
City of Preston	5,320,567	5,320,567
City of Nampa	5,000,000	759,957
City of Weiser	3,670,000	1,436,532
City of Post Falls	<u>3,384,233</u>	<u>3,021,280</u>
Totals	<u><u>\$72,145,555</u></u>	<u><u>\$30,853,775</u></u>

The authorized loan amount includes both completed projects and projects in progress. As of June 30, 2008 principal repayment on completed projects by the above agencies was \$5,017,945, and the remaining amount to be disbursed on projects in construction was \$36,273,835.

NOTE 4 – INTEREST RECEIVABLE

The interest rate on loans ranges from 0% to 4%, and loans are generally repaid over 20 years starting within one year after the project is completed. Details of loan interest receivable as of June 30, 2008, are as follows:

Interest Receivable by Category

Completed Projects	\$173,320
Projects in Progress	<u>382,399</u>
Total Interest Receivable	<u>\$555,719</u>

NOTE 5 -- CONTINGENCIES

The DWSRF is exposed to various risks of loss related to torts, thefts of assets, errors or omissions, and injuries to State employees while performing DWSRF business. The DWSRF maintains insurance (through the Idaho Department of Administration, Bureau of Risk Management) for all risks of loss. The cost of insurance is included in the indirect costs charged to the DWSRF. There have not been any claims against the DWSRF since its inception in 1997.

NOTE 6 -- EPA AND STATE CONTRIBUTIONS

The DWSRF is capitalized by EPA grants authorized by the Act and matching funds from the State. All funds drawn are recorded as contributed capital from the EPA and the State. As of June 30, 2008, EPA has awarded capitalization grants of \$71,706,407 to the State, of which \$51,851,438 has been drawn for loans and administration of the DWSRF. The State has provided the required matching funds of \$13,187,522. The following schedule summarizes the capitalization grants awarded by federal fiscal year, amounts drawn on each grant as of the balance sheet date, and balances available for future loan disbursements:

<i>Year</i>	<i>EPA Grant Amount</i>	<i>Total Draws at June 30, 2007</i>	<i>Draws During SFY 2008</i>	<i>Total Draws at June 30, 2008</i>	<i>Balance at June 30, 2008</i>
1997	\$12,317,286	\$12,317,286	\$0	\$12,317,286	\$0
1998	6,223,873	6,223,873	0	6,223,873	0
1999	5,971,040	5,971,040	0	5,971,040	0
2000	5,662,610	5,662,610	0	5,662,610	0
2001	5,686,043	5,686,043	0	5,686,043	0
2002	5,878,325	5,188,927	689,398	5,878,325	0
2003	5,842,993	320,164	5,522,829	5,842,993	0
2004	6,061,263	65,759	4,124,850	4,190,609	1,870,654
2005	6,048,415	0	78,659	78,659	5,969,756
2006	6,007,389	0	0	0	6,007,389
2007	<u>6,007,170</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,007,170</u>
Totals	<u>\$71,706,407</u>	<u>\$41,435,702</u>	<u>\$10,415,736</u>	<u>\$51,851,438</u>	<u>\$19,854,969</u>

As of June 30, 2007 and 2008, the State match contributions were:

	<i>Committed State Match</i>	<i>Total Match Provided at June 30, 2007</i>	<i>State Match Provided in SFY 2008</i>	<i>Total Match Provided at June 30, 2008</i>	<i>Available State Match Balance at June 30, 2008</i>
Idaho DWSRF	\$18,678,500	\$10,268,474	\$2,919,048	\$13,187,522	\$5,490,978

NOTE 7 – EPA CAPITALIZATION GRANT

The capitalization grants authorized under Section 1452 of the Safe Drinking Water Act are generally divided between two purposes: part of each capitalization is deposited into the DWSRF for providing loans for drinking water infrastructure projects; the other part is to be deposited into a set-aside account for other programs and activities that do not receive assistance from the fund. In accordance with program objectives, of these set-aside activities, only the DWSRF administration set-aside is included in the financial statements. The following schedules are intended to allow the reader to view the separate parts and total usage of the EPA capitalization grant:

<i>Year</i>	<i>Grant Amount</i>	<i>Total Draws June 30, 2007</i>	<i>Draws During SFY 2008</i>	<i>Total Draws June 30, 2008</i>	<i>Balance at June 30, 2008</i>
DWSRF Administration					
1997	\$566,312	\$566,312	\$0	\$566,312	\$0
1998	284,852	284,852	0	284,852	0
1999	298,552	298,552	0	298,552	0
2000	310,280	310,280	0	310,280	0
2001	311,564	311,564	0	311,564	0
2002	322,100	322,100	0	322,100	0
2003	320,164	320,164	0	320,164	0
2004	332,124	65,759	266,365	332,124	0
2005	331,420	0	78,659	78,659	252,761
2006	330,752	0	0	0	330,752
2007	<u>329,160</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>329,160</u>
Totals	<u>\$3,737,280</u>	<u>\$2,479,583</u>	<u>\$345,024</u>	<u>\$2,824,607</u>	<u>\$912,673</u>

<i>Year</i>	<i>Grant Amount</i>	<i>Total Draws June 30, 2007</i>	<i>Draws During SFY 2008</i>	<i>Total Draws June 30, 2008</i>	<i>Balance at June 30, 2008</i>
Technical Assistance					
1997	\$283,156	\$283,156	\$0	\$283,156	\$0
1998	78,584	78,584	0	78,584	0
2000	155,140	155,140	0	155,140	0
2001	155,782	155,782	0	155,782	0
2002	161,050	161,050	0	161,050	0
2003	160,082	160,082	0	160,082	0
2004	166,062	166,062	0	166,062	0
2005	165,710	165,710	0	165,710	0
2006	165,376	0	165,376	165,376	0
2007	<u>164,580</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>164,580</u>
Totals	<u>\$1,655,522</u>	<u>\$1,325,566</u>	<u>\$165,376</u>	<u>\$1,490,942</u>	<u>\$164,580</u>

<i>Year</i>	<i>Grant Amount</i>	<i>Total Draws June 30, 2007</i>	<i>Draws During SFY 2008</i>	<i>Total Draws June 30, 2008</i>	<i>Balance at June 30, 2008</i>
Assistance: Local 1997 = Source Water Assessment, 1997-2007 = Wellhead Protection					
1997	\$1,415,780	\$1,415,780	\$0	\$1,415,780	\$0
1998	712,130	712,130	0	712,130	0
1999	746,380	746,380	0	746,380	0
2000	775,700	775,700	0	775,700	0
2001	778,910	778,910	0	778,910	0
2002	805,250	805,250	0	805,250	0
2003	800,410	800,410	0	800,410	0
2004	830,310	830,310	0	830,310	0
2005	828,550	132,944	695,606	828,550	0
2006	826,880	0	21,160	21,160	805,720
2007	<u>822,900</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>822,900</u>
Totals	<u>\$9,343,200</u>	<u>\$6,997,814</u>	<u>\$716,766</u>	<u>\$7,714,580</u>	<u>\$1,628,620</u>

<i>Year</i>	<i>Grant Amount</i>	<i>Total Draws June 30, 2007</i>	<i>Draws During SFY 2008</i>	<i>Total Draws June 30, 2008</i>	<i>Balance at June 30, 2008</i>
Operator Certification					
1997	\$141,578	\$141,578	\$0	\$141,578	\$0
1998	106,713	106,713	0	106,713	0
1999	74,638	74,638	0	74,638	0
2000	77,570	77,570	0	77,570	0
2001	77,891	77,891	0	77,891	0
2002	80,525	80,525	0	80,525	0
2003	0	0	0	0	0
2004	41,515	41,515	0	41,515	0
2005	41,428	41,428	0	41,428	0
2006	41,344	0	37,915	37,915	3,429
2007	<u>41,145</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>41,145</u>
Totals	<u>\$724,347</u>	<u>\$641,858</u>	<u>\$37,915</u>	<u>\$679,773</u>	<u>\$44,574</u>

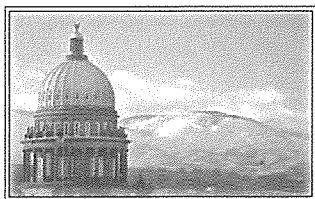
	<i>Grant Amount</i>	<i>Total Draws June 30, 2007</i>	<i>Draws During SFY 2008</i>	<i>Total Draws June 30, 2008</i>	<i>Balance at June 30, 2008</i>
PWSS: DWIMS - SDWIS					
1999	\$671,742	\$671,742	\$0	\$671,742	\$0
2000	698,130	698,130	0	698,130	0
2001	701,019	701,019	0	701,019	0
2002	724,725	724,725	0	724,725	0
2003	800,410	800,410	0	800,410	0
2004	788,795	788,795	0	788,795	0
2005	787,122	218,094	569,028	787,122	0
2006	785,536	0	58,071	58,071	727,465
2007	<u>781,755</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>781,755</u>
Totals	<u>\$6,739,234</u>	<u>\$4,602,915</u>	<u>\$627,099</u>	<u>\$5,230,014</u>	<u>\$1,509,220</u>

<i>Year</i>	<i>Grant Amount</i>	<i>Total Draws June 30, 2007</i>	<i>Draws During SFY 2008</i>	<i>Total Draws June 30, 2008</i>	<i>Balance at June 30, 2008</i>
Capacity Development					
2000	\$387,850	\$387,850	\$0	\$387,850	\$0
2001	389,455	389,455	0	389,455	0
2002	402,625	402,625	0	402,625	0
2003	400,205	400,205	0	400,205	0
2004	415,155	409,947	5,208	415,155	0
2005	414,275	76,231	225,382	201,613	112,662
2006	413,440	0	0	0	413,440
2007	<u>411,450</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>411,450</u>
Totals	<u>\$3,234,455</u>	<u>\$2,066,313</u>	<u>\$230,590</u>	<u>\$2,296,903</u>	<u>\$937,552</u>

<i>Year</i>	<i>Grant Amount</i>	<i>Total Draws June 30, 2007</i>	<i>Draws During SFY 2008</i>	<i>Total Draws June 30, 2008</i>	<i>Balance at June 30, 2008</i>
Total Set-Asides					
1997	\$2,406,826	\$2,406,826	\$0	\$2,406,826	\$0
1998	1,182,279	1,182,279	0	1,182,279	0
1999	1,791,312	1,791,312	0	1,791,312	0
2000	2,404,670	2,404,670	0	2,404,670	0
2001	2,414,621	2,414,621	0	2,414,621	0
2002	2,496,275	2,496,275	0	2,496,275	0
2003	2,481,271	2,481,271	0	2,481,271	0
2004	2,573,961	2,302,388	271,573	2,573,961	0
2005	2,568,505	634,407	1,568,675	2,203,082	365,423
2006	2,563,328	0	282,522	282,522	2,280,806
2007	<u>2,550,990</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,550,990</u>
Totals	<u>\$25,434,038</u>	<u>\$18,114,049</u>	<u>\$2,122,770</u>	<u>\$20,236,819</u>	<u>\$5,197,219</u>

<i>Year</i>	<i>Grant Amount</i>	<i>Total Draws June 30, 2007</i>	<i>Draws During SFY 2008</i>	<i>Total Draws June 30, 2008</i>	<i>Balance at June 30, 2008</i>
DWSRF Loans (2006 Amended on 3/5/07 Decrease of \$339,500)					
1997	\$11,750,974	\$11,750,974	\$0	\$11,750,974	\$0
1998	5,939,021	5,939,021	0	5,939,021	0
1999	5,672,488	5,672,488	0	5,672,488	0
2000	5,352,330	5,352,330	0	5,352,330	0
2001	5,374,479	5,374,479	0	5,374,479	0
2002	5,556,225	4,866,827	689,398	5,556,225	0
2003	5,522,829	0	5,522,829	5,522,829	0
2004	5,729,139	0	3,858,485	3,858,485	1,870,654
2005	5,716,995	0	0	0	5,716,995
2006	5,665,972	0	0	0	5,665,972
2007	<u>5,678,010</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,678,010</u>
Totals	<u>\$67,958,462</u>	<u>\$38,956,119</u>	<u>\$10,070,712</u>	<u>\$49,026,831</u>	<u>\$18,931,631</u>

<i>Year</i>	<i>Grant Amount</i>	<i>Total Draws June 30, 2007</i>	<i>Draws During SFY 2008</i>	<i>Total Draws June 30, 2008</i>	<i>Balance at June 30, 2008</i>
Total DWSRF Capitalization Grant					
1997	\$14,157,800	\$14,157,800	\$0	\$14,157,800	\$0
1998	7,121,300	7,121,300	0	7,121,300	0
1999	7,463,800	7,463,800	0	7,463,800	0
2000	7,757,000	7,757,000	0	7,757,000	0
2001	7,789,100	7,789,100	0	7,789,100	0
2002	8,052,500	7,363,102	689,398	8,052,500	0
2003	8,004,100	2,481,271	5,522,829	8,004,100	0
2004	8,303,100	2,302,388	4,130,058	6,432,446	1,870,654
2005	8,285,500	634,407	1,568,675	2,203,082	6,082,418
2006	8,229,300	0	282,522	282,522	7,946,778
2007	<u>8,229,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,229,000</u>
Totals	<u>\$93,392,500</u>	<u>\$57,070,168</u>	<u>\$12,193,482</u>	<u>\$69,263,650</u>	<u>\$24,128,850</u>



Legislative Services Office Idaho State Legislature

Serving Idaho's Citizen Legislature

Jeff Youtz
Director

November 19, 2008

Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed in Accordance
With Government Auditing Standards

Toni Hardesty, Director
Idaho Department of Environmental Quality
1410 North Hilton Street
Boise, ID 83706

Dear Ms. Hardesty:

We have audited the financial statements of the Idaho Department of Environmental Quality, Drinking Water State Revolving Fund's (DWSRF) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the DWSRF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Mike Nugent, Manager
Research & Legislation

Cathy Holland-Smith, Manager
Budget & Policy Analysis

Don H. Berg, Manager
Legislative Audits

Glenn Harris, Manager
Information Technology

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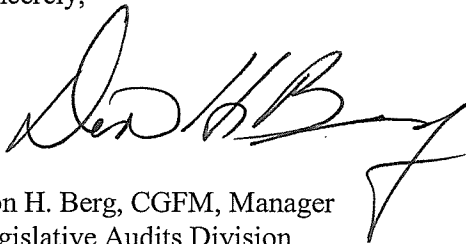
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DWSRF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Idaho Department of Environmental Quality and the Idaho Legislature and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Don H. Berg", with a stylized flourish at the end.

Don H. Berg, CGFM, Manager
Legislative Audits Division

AGENCY RESPONSE



STATE OF IDAHO
DEPARTMENT OF
ENVIRONMENTAL QUALITY

1410 North Hilton • Boise, Idaho 83706 • (208) 373-0502

C.L. "Butch" Otter, Governor
Toni Hardesty, Director

November 10, 2008

Mr. Don Berg, CGFM, Division Manager
Legislative Audits
954 West Jefferson
Boise, Idaho 83720

Re: Audit Report – 2008 Drinking Water Revolving Fund

Dear Mr. Berg:

The Department of Environmental Quality accepts the audit report. We appreciate the hard work of Eric Bjork of your audit staff.

If you or your staff have any further questions, please contact Dave Sande, CPA, Financial Officer.

Sincerely,

A handwritten signature in black ink, appearing to read "Toni", followed by a horizontal flourish.

Toni Hardesty
Director

cc: Dave Sande, DEQ-Fiscal Office

APPENDIX

HISTORY AND STATUTORY AUTHORITY

The Idaho Drinking Water State Revolving Fund (DWSRF) was established pursuant to the Federal Safe Drinking Water Act of 1996. The DWSRF has been capitalized by a series of grants from the U.S. Environmental Protection Agency beginning in 1997.

PURPOSE

The Act established the DWSRF to assist public water systems with financing the costs of the infrastructure needed to achieve or maintain compliance with Act requirements and to protect public health. Section 1452 of the Act authorizes the administrator of the EPA to award capitalization grants to states, which in turn can provide low-cost loans and other forms of assistance to eligible systems. The Act also establishes a strong emphasis on preventing contamination and enhancing water system management by allowing states to use some of the funds for source water protection, capacity development, and operator certification. These other activities are known as grant "set-asides." All DWSRF loan repayments, including interest and principal, must be returned to the DWSRF. DWSRF resources are to be used for eligible purposes in perpetuity. In accordance with the Act, the corpus of the federal and State capital contributions to the DWSRF will be maintained. All DWSRF loan disbursement, repayment, deposit of EPA contribution, deposit of State match, and related transactions are accounted for separately in the DWSRF.

ORGANIZATION AND STAFFING

The DWSRF is administered by the Idaho Department of Environmental Quality (DEQ). The DWSRF has no full-time employees, but instead uses DEQ employees on a part-time basis. The part-time positions include the DWSRF's bureau chief, senior accountant, loan program specialist, water quality analyst, four regional managers, and several staff and technical engineers.

Department of Environmental Quality
Organizational Structure

